

THEIR FAIR SHARE: Creating a Just Economy for Minimum Wage Families

Prepared by the Democratic Staff of the
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IN the nine long years since Congress last voted to raise the minimum wage, minimum wage families have faced an increasingly difficult struggle for survival. While our nation's slow emergence from the Bush recession has forced many working families to tighten their belts, minimum wage workers have fared even worse. By comparing trends in Congressional pay, Presidential pay, the cost of living, average wages, and executive compensation, this report shows that – by any measure – our nation's lowest paid workers have fallen behind the rest of the country, and Congress must raise the minimum wage to give minimum wage families their fair share.

Minimum Wage Workers Are Falling Behind

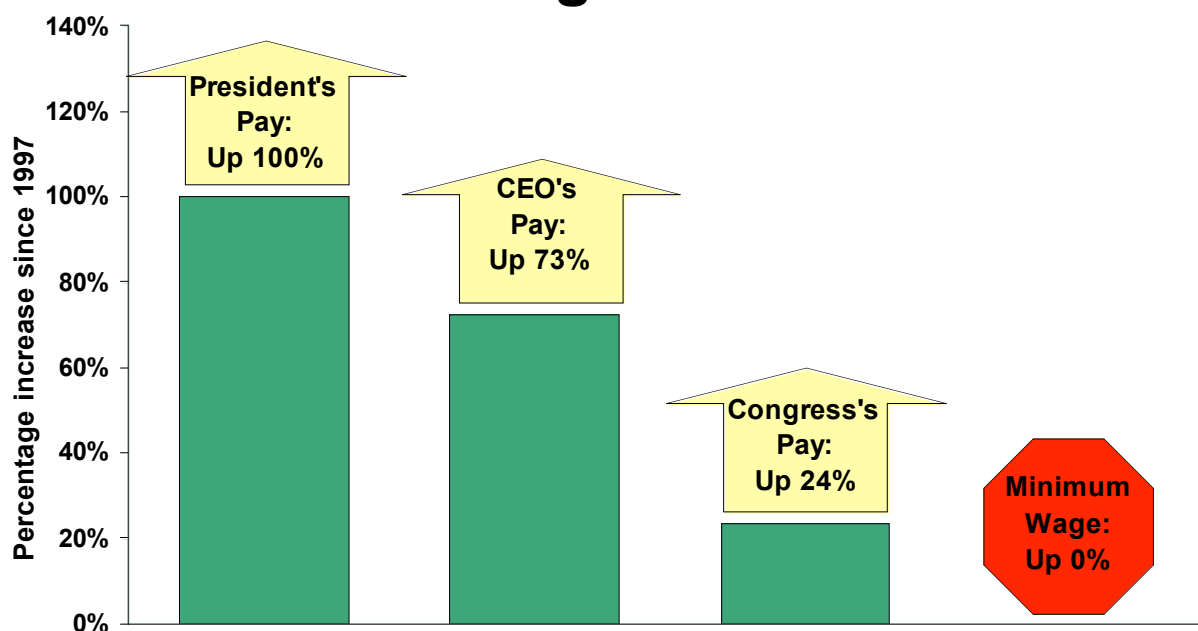


Figure 1 Source: Calculations based on Congressional Research Service, Bureau of Labor Statistics, and Mercer Human Resources Consulting CEO Compensation Survey.
Note: Increases are not adjusted for inflation. CEO Pay is measured as expected total direct compensation, including salaries, bonuses, options, incentive awards, and benefits.

Working Americans in the Bush Economy

Working families are increasingly anxious about the state of the economy. More than half of Americans disapprove of how the President is handling economic issues,¹ and 66% say our nation is on the wrong track.²

These findings are hardly surprising. Americans are working harder than ever, but they are not reaping the benefits of their hard work. While productivity has increased by 18% since Bush took office, average wages for working families are stagnant,³ and the minimum wage remains stuck at just \$5.15 an hour. See Figure 2. And while corporate profits have grown by 92% under Bush,⁴ workers – particularly minimum wage workers – are not getting their fair share of the profits their hard work is creating. See Figure 3.

Minimum Wage Workers Are Left Out of Economic Growth

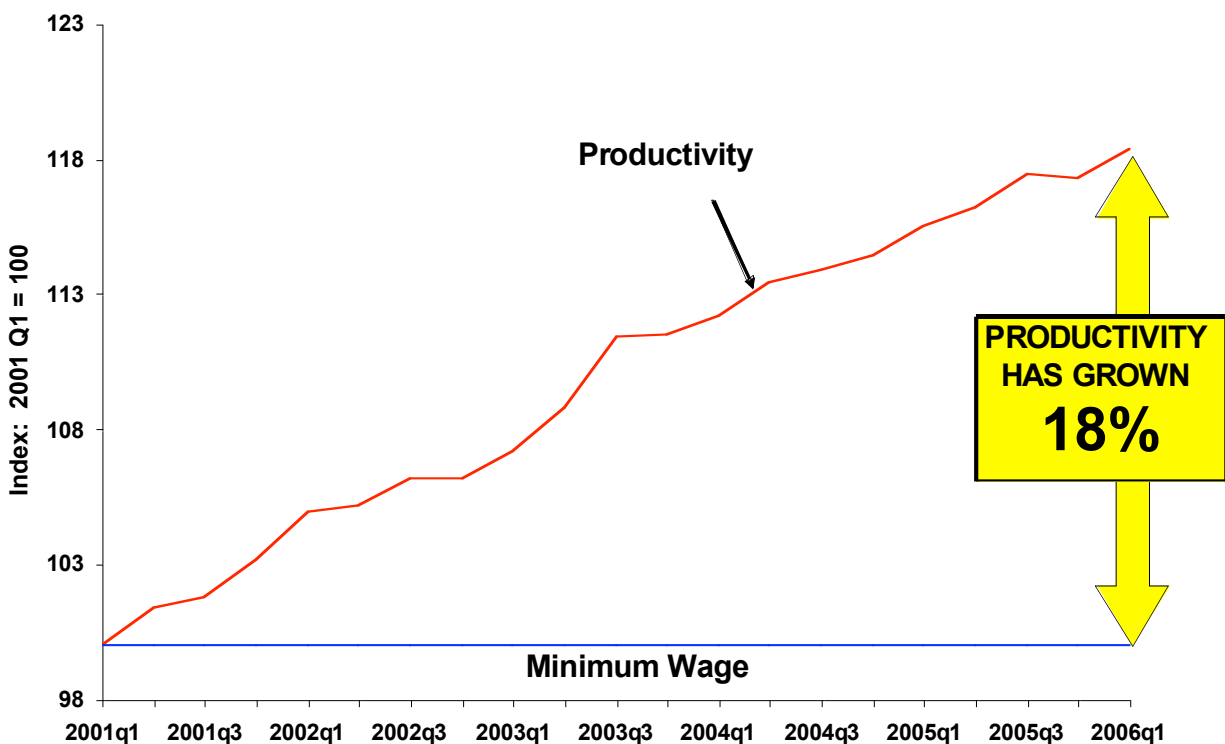


Figure 2 Source: Bureau of Labor Statistics

Corporations Profit, Workers Lose

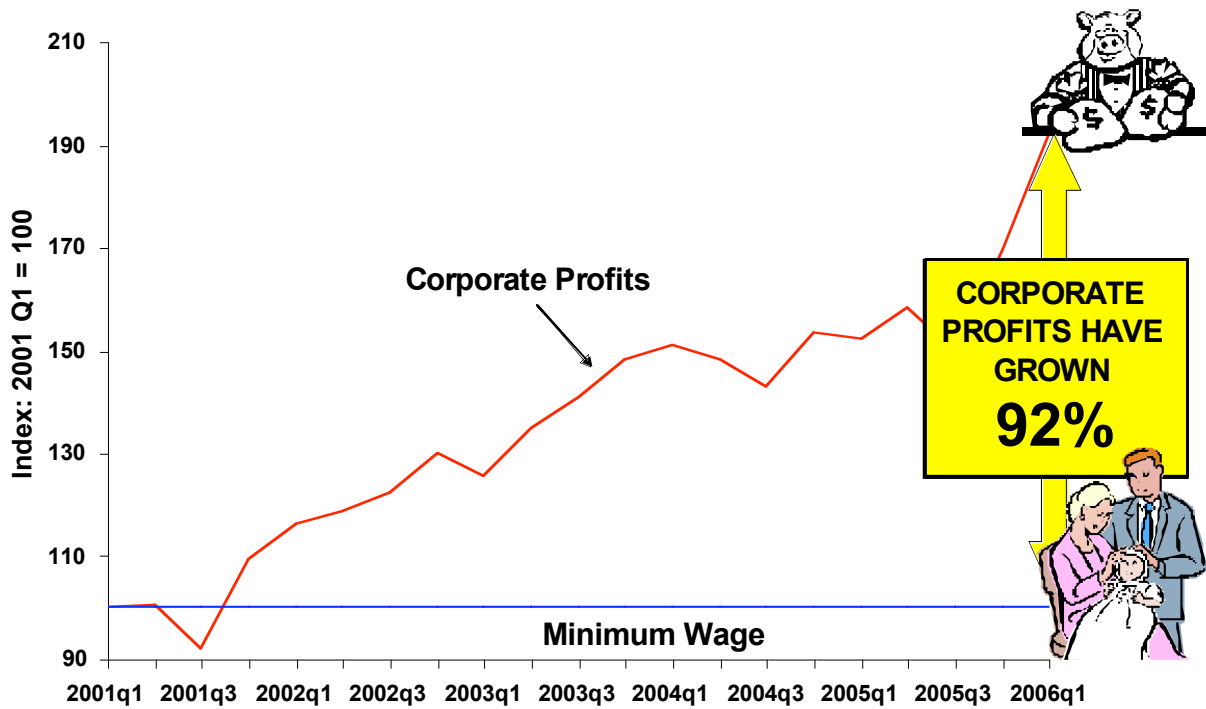


Figure 3 Source: Bureau of Economic Analysis, National Income and Product Accounts; Bureau of Labor Statistics.

All of the gains of the Bush economy are going to those at the very top of the economic ladder. For the first time in at least 65 years, more than 40% of our nation's total income is going to the wealthiest 10% of the country, while more than 16% of total income goes to the top 1% of earners.⁵

Nowhere is this gap between the haves and the have-nots more evident than in the fate of minimum wage workers. In the nine years since Congress last raised the minimum wage, the wealthiest 1% percent have seen their earnings increase by 16% in real dollars,⁶ while the real value of the minimum wage has declined by 21%. Minimum wage earners work as hard as anyone else – and often harder. But the minimum wage they receive doesn't cover their bills, and every day they fall farther and farther behind.

A Fair Share for Minimum Wage Families

If we're serious about putting our economy back on the right track, we must start by guaranteeing that those who work hard are getting their fair share. We cannot recover from a recession on the backs of our nation's most vulnerable workers.

One of the primary reasons that lawmakers enacted the first federal minimum wage in 1938 was to prevent the exploitation of low wage workers. As the nation was rising out of the Great Depression, those in the highest income brackets were experiencing a rapid return to prosperity, while millions of Americans were still suffering in extreme poverty.⁷ There was growing concern that employers were abusing desperate low-wage workers,⁸ and that the extreme inequalities in the distribution of national income would hamper economic growth.⁹ So lawmakers passed the first minimum wage law to establish a wage floor that would enable workers at the very bottom rung of the economic ladder to share in the gains of the national economy.

Unfortunately, far too many in Congress today have abandoned these principles, refusing to raise the wage floor and allow minimum wage workers to participate in our economic recovery. While lawmakers have increased their own salaries in the face of rising prices, minimum wage earners have seen the purchasing power of \$5.15 an hour plummet rapidly. And while skyrocketing executive pay and generous tax cuts for the wealthy have allowed the top wage earners to prosper, minimum wage workers have not seen another dime in their paychecks.

Raising the wages of the lowest paid workers is a vital first step to close this widening gap. Senator Kennedy's bill, the Fair Minimum Wage Act, would raise the minimum wage to \$7.25 an hour in three steps over the next two years. This increase would directly benefit 6.6 million workers, and indirectly benefit 8.3 million more.¹⁰ It would give a family with one minimum wage earner another \$4,400 a year to spend on education, child care, paying the rent, or just putting food on the table.

This increase would make a real difference in the lives of working families across the country. And it would give a long-overdue raise to the people whose hard work has helped our economy prosper.

The Minimum Wage and Congressional Pay

In 1986, Congress enacted a law providing for automatic yearly increases in Congressional salaries to reflect changes in the cost of living. As Senator Rick Santorum has explained, Members of Congress believe these salary increases are vital so that lawmakers will not “fall behind in purchasing power.”¹¹ As a result of these automatic increases, in the nine years since the last minimum wage hike, the salaries of members of Congress has increased eight times, totaling more than \$31,000 – almost three times what a minimum wage worker makes in a year. See Figure 4.

Congress Raises Own Pay \$31,600, Minimum Wage Workers Get Nothing

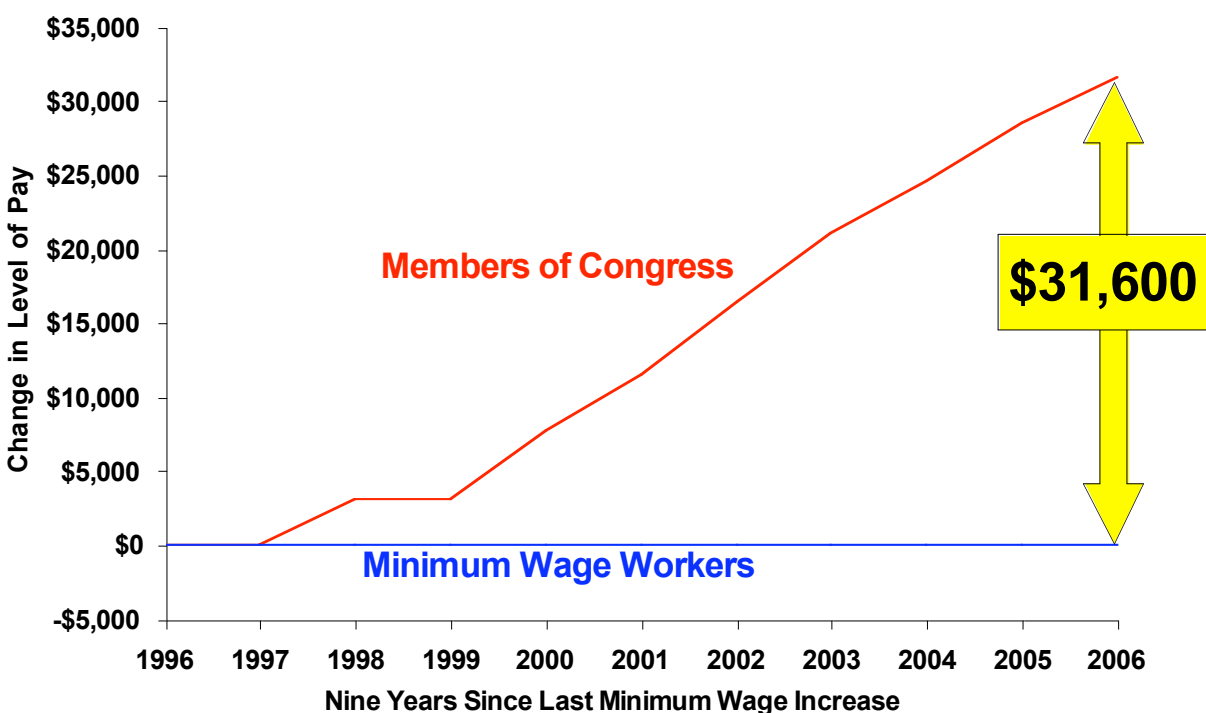


Figure 4 Source: Congressional Research Service

The salary of a Member of Congress is now \$165,200.¹² In June of 2006, the House of Representatives approved another Congressional pay increase for 2007.¹³ If the Senate also approves this automatic increase, Congressional pay will rise by another \$3,300 next year, to a total of \$168,500.

Yet, while Congress has voted itself eight pay increases in the last nine years, the Senate has also voted down proposals to raise the minimum wage eight times in those same nine years.¹⁴ Indeed, last October Senate Republicans voted down Senator Kennedy's amendment to increase the minimum wage on the very same bill where they approved their own pay increase.¹⁵

If raising Congressional salaries is, in the words of Speaker Hastert, "the decent thing to do" to allow lawmakers to "provide for their families,"¹⁶ raising the minimum wage after nine long years of inaction must also be the decent thing to do for minimum wage families who are working hard but still living in poverty.

- Members of Congress have received eight pay increases in the last nine years, totaling more than \$31,000.
- Congressional pay has increased by 24% since the last minimum wage increase.¹⁷
- This year, Congress is poised to give itself another \$3,300 raise.

The Minimum Wage and Presidential Pay

Congress approved legislation in 2000 to double the President's annual salary from \$200,000 to \$400,000, effective January 20, 2001. This jump, like the automatic Congressional pay increase, was deemed "a case of simple equity" to allow the President's salary to keep pace with inflation.¹⁸ However, while President Bush has benefited from Congress's recognition that the salaries of public officials must keep pace with inflation, the White House has not shown the same consideration for minimum wage workers.

President Bush supports a proposal that would give states the ability to "opt out" of the federal minimum wage.¹⁹ This proposal is a backdoor repeal of the minimum wage, as the federal minimum would no longer be the wage floor for the nation's workforce. It violates the basic principle, which we have stood by for almost seventy years, that working men and women are entitled to a fair minimum wage. Allowing states to opt out of the minimum wage would also fuel a dangerous "race to the bottom" among states, guaranteeing that even greater numbers of low-income workers will have to live in poverty.

In addition, the Administration has consistently refused to support a fair increase in the minimum wage that would bring working families out of poverty. Though White House press secretary Scott McClellan has stated that President Bush "believes that we should look at having a reasonable increase in the minimum wage,"²⁰ the \$1.10 increase that the President supports is insufficient to allow minimum wage workers' wages to keep pace with inflation.²¹ With such a paltry increase, the minimum wage will continue to lose value, and minimum wage workers will continue to fall behind the rest of the nation.

Instead of shortchanging our nation's most vulnerable workers, we need to help these workers rise out of the Bush recession by providing a fair increase in the minimum wage.

- Presidential pay has increased by 100% since 1997, while the minimum wage hasn't been raised by one cent.

- If the minimum wage had increased at the same rate as Presidential pay, the minimum wage would be \$10.30 per hour today.

The Minimum Wage and the Cost of Living

The cost of living has increased significantly since the last minimum wage increase. Prices for essentials such as gas, health care, and housing have risen dramatically, particularly under the Bush Administration. Today, almost two thirds of Americans are worried about prices rising faster than their income.²²

The circumstances are even more dire for minimum wage workers, whose paltry wages do not allow them to afford even basic needs of life.

Gas Prices

Since President Bush took office, the cost of filling a tank with gas has soared to unprecedented heights. In all 50 states and the District of Columbia, minimum wage earners must work for more than a day just to make enough money to fill a tank of gas, and in 14 states minimum wage earners must work a day and a half to earn enough to pay for the gas to drive to work.²³

The Cost of Gas is Skyrocketing

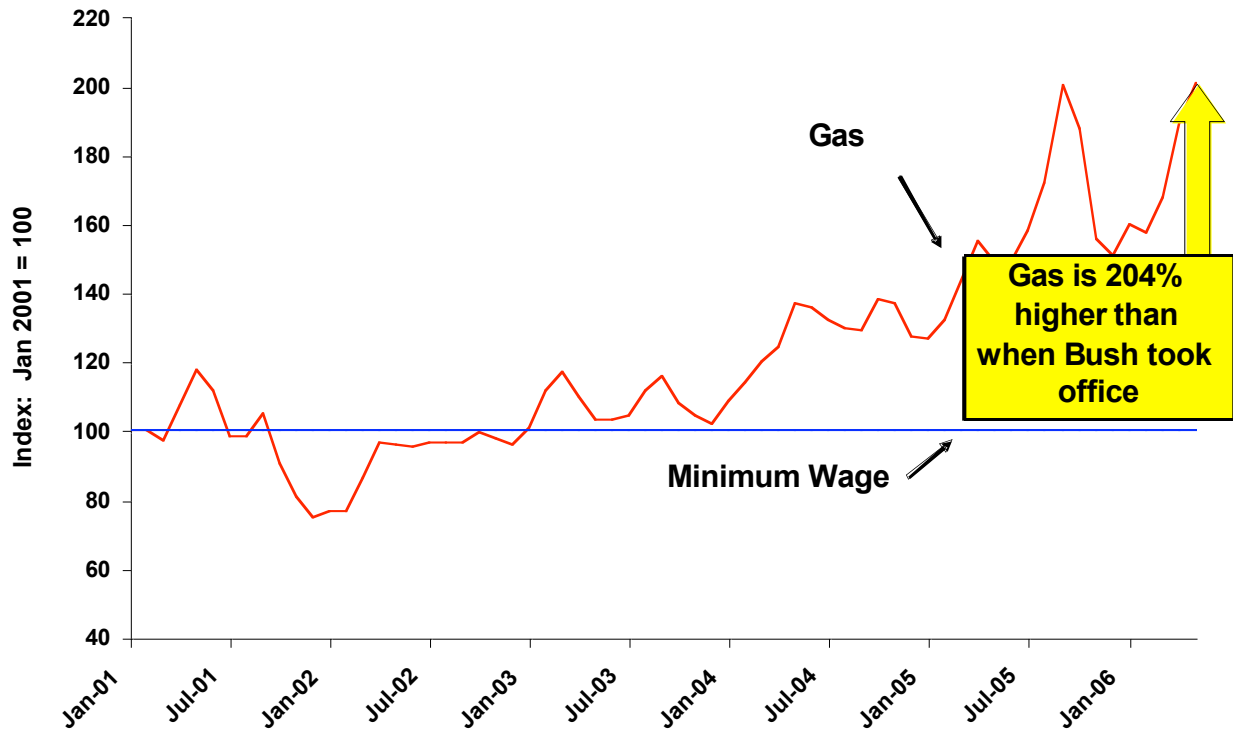


Figure 5 Source: U.S. Energy Information Administration.

Health Care

Health-care costs have also increased dramatically over the past few years. While even middle and upper class families are struggling to absorb those costs, those earning the minimum wage are being left behind entirely.

Most of these workers do not receive any health care from their employers. Only about 30% of workers who earn less than \$10,000 a year have employee-sponsored health care.²⁴

In 2005, the average cost of health care for a family of four rose to \$10,880.²⁵ A full-time year-round minimum wage worker only makes \$10,700 pre-tax for the entire year. The minimum wage is so low that minimum wage workers simply cannot afford to obtain health care.

Health Care Costs More than a Minimum Wage Worker Earns in a Year

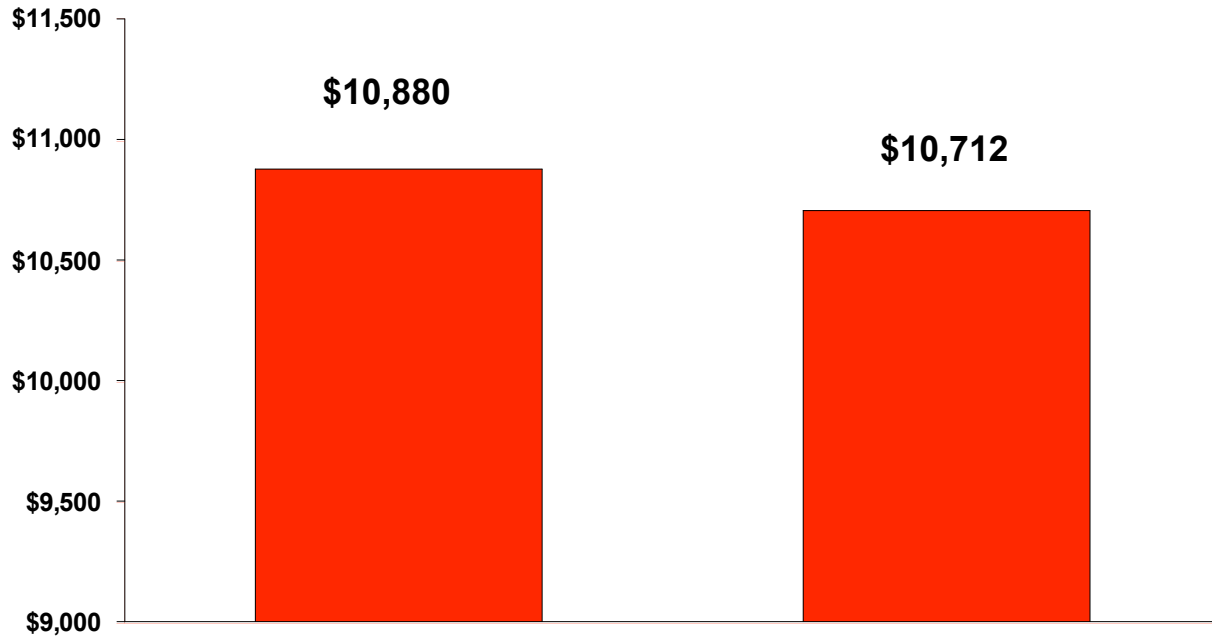


Figure 6 Source: Kaiser Family Foundation, 2005.

Housing

Workers earning the minimum wage do not earn enough to pay for adequate housing. A person working 40 hours a week and earning \$5.15 an hour cannot afford a modest two bedroom apartment in any state in the country.²⁶ Indeed, eighty percent of renters live in counties where a minimum wage worker would have to work 80 or more hours per week to afford a two-bedroom apartment—the equivalent of two full-time jobs.²⁷

College Tuition

In today's economy, too many minimum wage workers are being shut out of the American Dream, stuck in low wage jobs for years without the opportunity to advance.²⁸ More than a third of minimum wage earners from ages 25 to 54 will still be earning the minimum wage three years later.²⁹

While education is the primary path to bring workers out of poverty in the global economy, the costs of college are rising rapidly. Tuition at public four-year colleges is up 45 percent since Bush took office, while two-year college tuition is up 36% and private college tuition is up 22%. See Figure 8. Without an increase in the minimum wage, our lowest-paid workers can't get ahead because they can't afford the degrees they need.

College Tuition Has Increased Rapidly in the Bush Economy

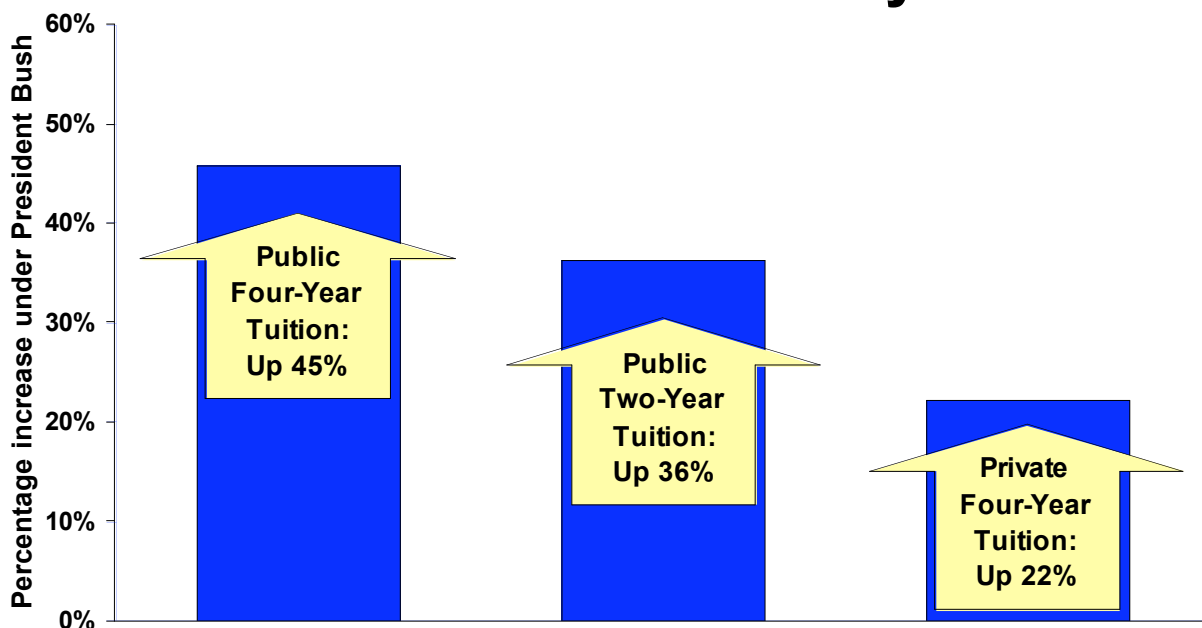


Figure 8 Source: The College Board, Annual Survey of Colleges.

Minimum Wage Workers Are Being Squeezed in Every Direction

The rising cost of living has forced minimum wage workers into desperate circumstances. No matter how hard they work, minimum wage workers are forced to make impossible choices—between paying the rent and buying groceries, or between paying the heating bill and buying diapers.

We must raise the minimum wage now to ensure that workers can afford to meet their most basic needs – a roof over their head, gas for their car, health care when they're sick, and an education for their future.

- The cost of living has increased by 25% since the last minimum wage increase.³⁰
- While the minimum wage has remained unchanged, the cost of living has increased 75%, health insurance is up 22%, college tuition is

The Minimum Wage and Average Wages

Historically, the minimum wage has been maintained at a level equivalent to about one-half of average hourly earnings. Underlying this relationship has been the fundamental principle that minimum wage earners should share in any increase in the nation's standard of living. However, in recent years, Congress has abandoned this principle altogether, allowing the minimum wage worker to fall farther and farther behind the average American.

The Minimum Wage Is at Its Lowest Level Compared to Average Wages

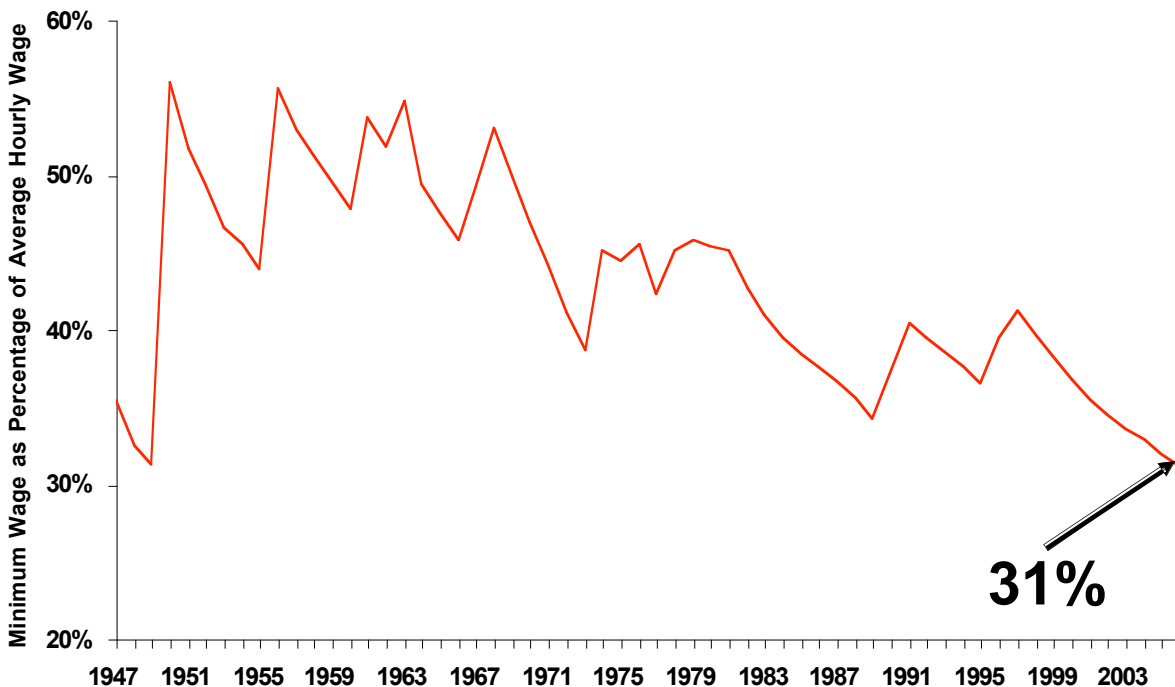


Figure 9 Source: Calculations based on Bureau of Labor Statistics data.

Today's minimum of \$5.15 represents only about 31 percent of average hourly earnings.³² The minimum wage is now at the lowest level it has ever been compared to average wages.

A fair increase in the minimum wage would help bring the lowest workers' wages back in line with the performance of the nation's

economy, giving these workers their fair share of the economic gains their hard work produces.

- Average wages have increased by 32% since the last minimum wage increase.³³
- The minimum wage would be \$8.35 per hour today if the minimum wage were to return to its historical level of 50% of average wages.³⁴

The Minimum Wage and CEO Pay

The top-earning executives in the country are faring far better than minimum wage workers in the Bush economy. While more and more working Americans are feeling the squeeze of rising costs, chief executives have been immune from these pressures. Last year alone, the average total pay for chief executives rose by more than 27 percent.³⁵

CEOs Now Make 821 Times More Than A Minimum Wage Worker

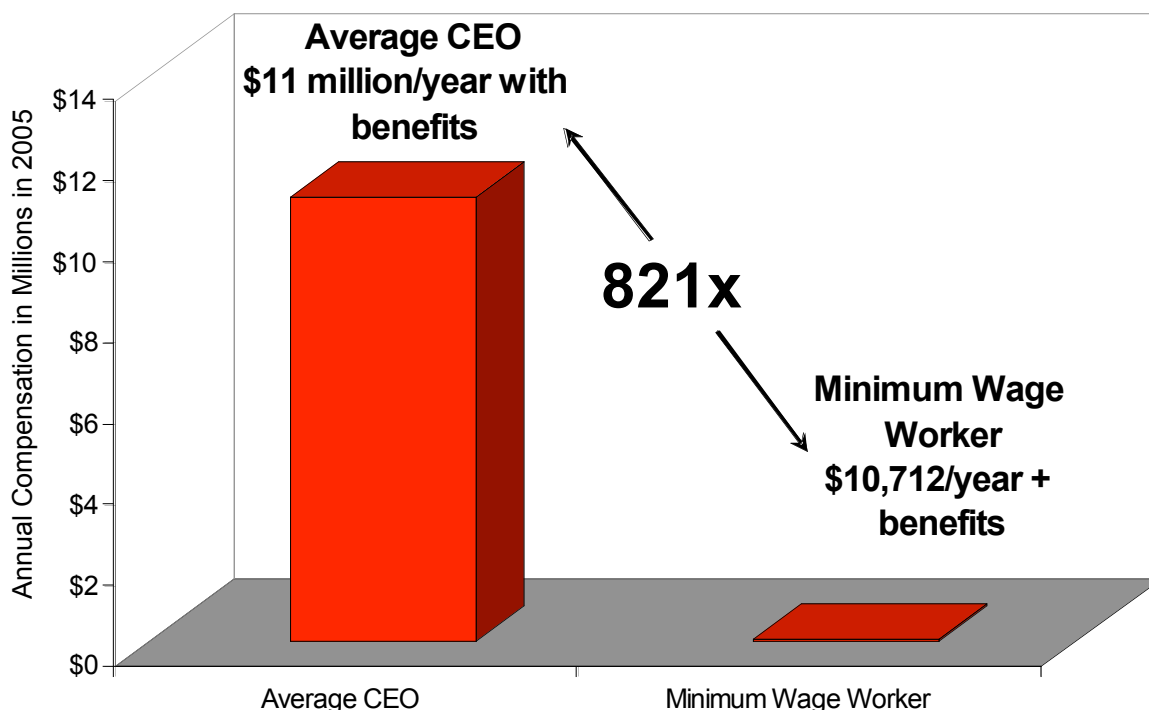


Figure 10 Source: Economic Policy Institute analysis of Mercer CEO Compensation Survey

. Compensation includes salaries, bonuses, options, incentive awards, and benefits.

CEO salaries are even more excessive when compared to the salaries of the lowest wage workers in the companies that they run. CEO compensation has increased by 73% since 1997, while minimum wage workers haven't seen another penny in their paychecks. As a result of these rising disparities, an average CEO now earns more before lunchtime on the very first day of work in the year than a minimum wage worker earns working full time, all year long.³⁶

- CEO compensation has increased by 73% since the last minimum wage increase.³⁷
- If the minimum wage had increased at the same rate as CEO pay, it would be \$8.91 per hour.

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- ¹ Bloomberg/Los Angeles Times poll, June 29, 2006, *available at* <http://www.bloomberg.com/apps/news?pid=20601070&sid=aHGNJVSizZBV&refer=>.
- ² Time Magazine poll, June 30, 2006, *available at* <http://www.time.com/time/nation/article/0,8599,1209851,00.html>.
- ³ Bureau of Labor Statistics, "Total Private Average Hourly Earnings," Series CES0500000049.
- ⁴ Bureau of Labor Statistics, "Output per Hour for Nonfarm Business," Series PRS85006093; Bureau of Economic Analysis, National Income and Product Accounts, "Profits After Tax with IVA and CCAdj."
- ⁵ Bernasek, Anna, "Income Inequality and Its Cost," *New York Times*, June 25, 2005.
- ⁶ Saez, Emmanuel and Thomas Piketty, "Income Inequality in the United States," 1913-1998, *Quarterly Journal of Economics*, 118(1), 2003, Updated Figures and Tables *available at* elsea.berkeley.edu/~saez, Table A4, p. 99-100.
- ⁷ *Congressional Record*, July 31, 1937 p. 7937-39 (Statement of Senator Neely).
- ⁸ *Ibid.*, June 14, 1938 p. 9262 (Statement of Representative Schneider).
- ⁹ *Ibid.*, June 14, 1938 p. 9264 (Statement of Representative Keller) ("It is only by a wider distribution of our national income that we can expand our markets, increase production, and gradually eliminate unemployment.").
- ¹⁰ Economic Policy Institute analysis of 2005 Current Population Survey data.
- ¹¹ Milligan, Susan, "Measure in Congress Would Give Lawmakers a \$5000 Pay Raise," *Boston Globe*, July 4, 2002, p. A3.
- ¹² Dwyer, Paul, "Salaries of Members of Congress: A List of Payable Rates and Effective Dates, 1789-2006," Congressional Research Service, April 18, 2006.
- ¹³ Transportation, Treasury, Housing and Urban Development, the Judiciary, the District of Columbia and Independent Agencies Appropriations Act, 2007, H.R. 5576, 109th Cong. (June 14, 2006).
- ¹⁴ See S.1301 (September 28, 1998); S. Con. Res. 20 (March 25, 1999); S. 96 (April 28, 1999); S. 1429 (July 30, 1999); S. 625 (November 9, 1999); S. 256 (March 7, 2005); H.R. 3058 (October 19, 2005); S. 2766 (June 21, 2006).
- ¹⁵ See H.R. 3058 (October 19, 2005).
- ¹⁶ *Congress Daily*, June 8, 2001.
- ¹⁷ Calculations based on data contained in Dwyer, *supra* note 17.
- ¹⁸ "Salary of the President of the United States," Hearing Before House Government Reform Subcommittee on Government Management, Information, and Technology, 106th Cong. 24, May 24, 1999 (statement of Kenneth Duberstein, Chief of Staff for President Ronald Reagan).
- ¹⁹ Greenhouse, Steven, "Senate Panel Gives Warm Reception to New Labor Nominee," *New York Times*, January 25, 2001, p. A20.
- ²⁰ Thomas, Helen, "Rich Senators Defeat Minimum Wage Hike," Hearst News Service, October 26, 2005.
- ²¹ Bureau of Labor Statistics, Consumer Price Index – All Urban Consumers, Series CUUR0000SA0.
- ²² AFL-CIO, "State of Working America" poll, August 2005, *available at* http://www.aflcio.org/aboutus/laborday/upload/ld2005_report.pdf.
- ²³ Weller, Christian E., Center for American Progress, "Double Whammy: Gas Prices Hammer Minimum Wage Workers," May 24, 2006.
- ²⁴ Fronstin, Paul, "Employment-Based Health Benefits: Trends in Access and Coverage," Employee Benefits Research Institute, August 2005, *available at* http://www.ebri.org/pdf/briefspdf/EBRI_IB_08-20051.pdf.
- ²⁵ Kaiser Family Foundation, "Employer Health Benefits 2005 Annual Survey," *available at* <http://www.kff.org/insurance/7315/index.cfm>.
- ²⁶ National Low-Income Housing Coalition, "Out of Reach 2005," *available at* <http://nlihc.org/oor2005/>.
- ²⁷ *Ibid.*

²⁸ Boushey, Heather, "No Way Out: How Prime-Age Workers Get Trapped in Minimum Wage Jobs," Center for Economic and Policy Research, May 2005, *available at* http://www.cepr.net/publications/labor_markets_2005_05.pdf.

²⁹ Ibid.

³⁰ American Institute for Economic Research Cost-of-Living Calculator, *available at* <http://www.aier.org/cgi-aier/colcalculator.cgi> (accessed 7/8/06).

³¹ Department of Energy, U.S. Energy Information Administration; Kaiser Family Foundation, Employer Health Benefits, 2005 Annual Survey; The College Board, Annual Survey of Colleges; Office of Federal Housing Enterprise Oversight, House Price Index

³² Calculations based on Bureau of Labor Statistics, "Average Hourly Earnings of Production Workers," Series CES0500000006.

³³ Calculations based on Bureau of Labor Statistics, "Average Hourly Earnings of Production Workers," Series CES0500000006.

³⁴ Ibid, June 2006.

³⁵ Dash, Eric, "C.E.O. Pay Keeps Rising, And Bigger Rises Faster," New York Times, April 9, 2006 (citing data from a survey of 200 large companies by Pearl Meyer & Partners).

³⁶ Mishel, Lawrence, "CEO pay-to-minimum wage ratio soars," Economic Policy Institute, June 27, 2006.

³⁷ Mercer Human Resources Consulting CEO Compensation Survey, Expected Total Direct Compensation, May 2006.